

Message Text

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ACTION XMB-07

INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CIAE-00 COME-00

EB-11 FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 OPIC-12

SP-03 CIEP-02 OMB-01 FEA-02 ACDA-19 IO-14 L-03 NSC-07

SCI-06 AEC-11 DRC-01 /171 W
----- 116892

P R 150354Z JUL 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 5203

INFO AMEMBASSY BELGRADE

AMEMBASSY TOKYO

AMCONSUL HONG KONG

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DEPT PASS EXIMBANK

TOKYO FOR USAEC

HONG KONG FOR RAND

EMO. 11652: N/A

TAGS: EFIN, RP

SUBJECT: PHILIPPINE NUCLEAR POWER PROJECT: GOP REQUEST FOR EXIM
TERMS

1. IN JULY 11 LETTER TO AMBASSADOR, EXECUTIVE SECRETARY
MELCHOR INDICATED THAT GOP FORESEES DIFFICULTY WITH
NUCLEAR POWER PROJECT DUE TO SEVERE CASH FLOW PROBLEMS
ASSOCIATED WITH FINANCING TERMS THAN THOSE THUS FAR INDICATED
WOULD BE FORTHCOMING FROM EXIM.

2. SPECIFICALLT IN HIS LETTER AND IN DIRECT APPROACH TO
EC/COM COUNSELOR MELCHOR POINTED TO MORE FAVORABLE TERMS
GRANTED YUGOSLA IA FOR NUCLEAR PLANS, AND ASKED THAT THESE
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TERMS BE EXTENDED TO PHILIPPINES.

3. TERMS OF EXIM FINANCING FOR YUGOSLAV PLANT WERE OUTLINED TO GOP BY REPRESENTATIVE OF AMERICAN EXPRESS INTERNATIONAL AT JULY 9 MEETING OF WESTINGHOUSE, AMEREX AND GOP FINANCIAL TEAM. DETAILS NOT YET AVAILABLE TO EMBASSY.

4. SIGNIFICANT SECTIONS OF JULY 11 LETTER FOLLOW: QUOTE
PRELIMINARY FINANCIAL ANALYSIS MADE BY OUR FINANCIAL TEAM AND THOSE FROM AMERICAN EXPRESS AND THE WORLD BANK, HAVE INDICATED THAT UNDER THE TERMS OF THE TRADITIONAL 45-45 PARTICIPATORY FINANCING SCHEME OF THE US EXIMBANK, THE NATIONAL POWER CORPORATION WILL HAVE SUBSTANTIAL CASH FLOW DEFICITS. THE WORLD BANK HAS NOTED THIS SERIOUS PROBLEM AND CAUTIONED NPC TO BE MINDFUL OF ITS LOAN COVENANT PROVISIONS REGARDING THE MAINTENANCE OF AN ADEQUATE DEBT SERVICE CAPABILITY. FURTHERMORE, WE ALSO NOTED THE FINANCIAL DRAIN THIS WOULD MEAN ON THE NATIONAL TREASURY'S FUNDS WHICH COULD ADVERSELY AFFECT OTHER PROJECTS IN THE PUBLIC INVESTMENT PROGRAM.

IT WAS THEREFORE WITH OPTIMISM THAT WE NOTED THE PRECEDENT-SETTING CHANGE IN THE LOAN TERMS EXTENDED BY EXIMBANK TO YUGOSLAVIA FOR ITS NUCLEAR POWER PROJECT, AS AN INDICATION THAT EXIMBANK HAS ADJUSTED ITS GUIDELINES IN LENDINGS TO NUCLEAR POWER PROJECTS PARTICULARLY TO DEVELOPING COUNTRIES. WE NOTED THAT IN THE YUGOSLAV CASE EXIMBANK EXTENDED A 90 PERCENT FULL EXIM FINANCING UNDER ITS PREFERENTIAL INTEREST RATES, INTEREST DURING CONSTRUCTION WAS CAPITALIZED AS PART OF THE EXIMBANK LOAN, AND AMORTIZATION PAYMENTS WERE STAGGERED (NOT EQUAL INSTALLMENTS) TO ENABLE IMMEDIATE PAYMENT OF HIGHER COST MONEY.

IT IS OUR HOPE THEREFORE THAT THIS CHANGE IN EXIMBANK FINANCIAL POLICY FOR NUCLEAR POWER PROJECTS WOULD APPLY TO THE PHILIPPINES AS WELL. THE PROJECT BECOMES VERY VIABLE IF EXIMBANK COULD EXTEND THE SAME FINANCING TERMS TO OUR NUCLEAR PROJECT, THAT IT GRANTED YUGOSLAVIA. THIS MUCH IMPROVED FINANCING PACKAGE WOULD ENABLE US TO ENSURE THE FINANCIAL VIABILITY OF THE PROJECT AND OF NPC, RELIEVE THE STRAIN ON GOVERNMENTAL FINANCE WHICH WOULD SERIOUSLY AFFECT OTHER SECTORS, AND ENABLE NPC TO MAINTAIN ITS FINANCIAL COVENANTS WITH THE WORLD BANK. THIS WOULD LIKEWISE ENABLE LIMITED OFFICIAL USE

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US TO PURSUE ON A SURE FOOTING OUR NEGOTIATIONS WITH WESTINGHOUSE ON THE SUPPLY PACKAGE.

WE ARE PRESENTLY IN THE PROCESS OF DEVELOPING WITH THE ASSISTANCE OF OUR BANKERS THE SUPPORTING DATA REQUIRED AS A PRE-REQUISITE TO THE SUBMISSION OF A FORMAL CREDIT APPLICATION. THIS INFORMATION WILL INCLUDE DETAILED PROJECTED CASH FLOWS SUBSTANTIATING THE NEED FOR THE CREDIT TERMS AND CONDITIONS THAT WILL BE REQUESTED.

AS I HAVE PREVIOUSLY INDICATED, IT IS OUR INTENTION
TO HAVE A FULL NUCLEAR PROJECT TEAM VISIT EXPORT-IMPORT
BANK TO MAKE A FORMAL PRESENTATION ON THE PROJECT AS SOON
AS THE ABOVE-MENTIONED DETAILS, TO BE INCORPORATED IN A
FINANCING BROCHURE, ARE COMPLETED. UNQUOTE

COPY OF LETTER BEING POUCHED EA/PHL AND EXIMBANK

5. COMMENT AND ACTION REQUESTED: WESTINGHOUSE REPS HAVE
TOLD EMBOFFS THAT THEY FEEL GOP WILL FOLLOW LINE THAT
UNLESS EXIM IS PREPARED TO EXTEND TERMS COMPARABLE TO THOSE
GIVEN YUGOSLAVIA, PROJECT WILL HAVE TO BE SHELVED OR EQUIP-
MENT SOURCED WHERE MORE LIBERAL TERMS AVAILABLE. FURTHER
ACTION ON PROJECT, ACCORDING MELCHOR, AWAITS AN INDICATION
OF WHETHER EXIM PREPARED TO MATCH YUGOSLAV TERMS FOR
PHILIPPINESM EMBASSY WOULD APPRECIATE BEING ADVISED AS TO
TERMS GRANTED YUGOSLAVIA AND BEING PROVIDED WITH BASIS FOR
INTERIM REPLY TO MELCHOR.
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Message Attributes

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